

Report of the auditor-general to the Gauteng Provincial Legislature and the council on the City of Tshwane Metropolitan Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the City of Tshwane Metropolitan Municipality (CTMM) set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of City of Tshwane Metropolitan Municipality (CTMM) as at 30 June 2019 and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practices (SA Standards of GRAP) and the requirements of the Municipal Management Finance Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2018, (Act No. 1 of 2018) (Dora).

Basis for the opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole and in forming my opinion, and I do not provide a separate opinion or conclusion on these matters.

Key audit matter	How the matter was addressed in the audit
<p>Revenue recognition - water and electricity sales</p> <p>1. Revenue from service charges for water, as disclosed in note 26 to the annual financial statements, was recognised based on actual meter readings and where meter readings were not available, based on estimates of consumption.</p> <p>Revenue recognition for water service charges has, as a result of above, been identified as a key audit matter due to significant judgement applied in calculating the estimations of the consumption used and the significant volume of transactions processed through a complex information system.</p>	<p>My procedures included the following:</p> <ul style="list-style-type: none"> Understanding and evaluating the flow of information, the information technology (IT) system and the controls relating to the meter reading process, the billing process and the systems interface process, which included involving my IT audit specialists Identifying the significant risks associated with service billing and designing specific procedures to address the risks identified Performing substantive tests of detail using computer assisted audit techniques by IT audit specialists on the water consumption billed to identify estimations used. Performing substantive tests of detail on a sample basis of the reasonability of estimation and meter reading process. Performing procedures to determine the appropriateness of assumptions made by management to determine the estimate. Physical inspection of a sample of water meter readings to validate the meter readings captured. <p>I found that manual and IT controls were designed, however these controls were not adequately implemented in some instances.</p> <p>I found that the significant judgements made by management in calculating the estimate was reasonable. My substantive procedures revealed that the extent of estimated readings were significant, however, there were no material adjustment to the municipality's annual financial statements. Therefore, no further significant issues were noted on the reasonableness of revenue.</p>
<p>2. Revenue from service charges for electricity, as disclosed in note 26 to the annual financial statements, was recognised based on actual meter readings or estimates of consumption.</p> <p>Revenue recognition for electricity service charges has been identified as a key audit matter due to significant judgement applied in calculating the estimations of the consumption used and the significant volume of transactions processed through a complex information system.</p>	<p>My procedures included the following:</p> <ul style="list-style-type: none"> Understanding and evaluating the flow of information, the information technology (IT) system and the controls relating to the meter reading process, the billing process and the systems interface process, which included involving my IT audit specialists Identifying the significant risks associated with service billing and designing specific procedures to address the risks identified Performing substantive tests of detail using computer assisted audit techniques by IT audit

	<p>specialists on the electricity consumption billed to identify estimations used.</p> <ul style="list-style-type: none"> • Performing substantive tests of detail on a sample basis of the reasonability of estimation and meter reading and overall billing process. • Performing procedures to determine the appropriateness of assumptions made by management to determine the estimate. • Physical inspection of a sample of electricity meter readings to validate the meter readings captured. <p>I found that manual and IT controls were designed, however these controls were not adequately implemented in some instances.</p> <p>I found that the significant judgements made by management in calculating the estimate was reasonable. My substantive procedures revealed that the extent of estimated readings were significant, however, there were no material adjustment to the municipality's annual financial statements. Therefore, no further significant issues were noted on the reasonableness of revenue.</p>
Significant difficulties encountered in obtaining information requested for audit purposes	
<p>3. The engagement letter signed by the accounting officer agreed to provide requested documents within five working days. The municipality was unable to provide in some cases the requested documents within the agreed time. These significant difficulties adversely impacted the allocated time for audit execution and the evaluation of audit evidence.</p> <p>Accordingly, the significant difficulties in providing requested information on time and aiding the audit team with access to the SAP system has impacted on the audit and is considered a key audit matter.</p>	<p>To monitor the submission of documents in response to the request for information, a tracking mechanism was set up between the municipality and senior members of the audit team. In the event that information was not provided timeously, these concerns were escalated to the accounting officer on a weekly basis through the submission of progress reports. Further, weekly audit steering committee meetings were also held where the non-timeous submission of requested information was also discussed.</p> <p>Some of the long outstanding information has only been made available in November for audit purposes, however constraints over access to the SAP system have since been resolved.</p> <p>We are satisfied that all material outstanding information has been provided and sufficient time was available to assess and report where applicable.</p>

Material uncertainty relating to financial sustainability

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Financial sustainability

8. As disclosed on note 56 to the financial statements, the current ratio and coverage ratios were below the National Treasury acceptable norm. This has a potential to result in the municipality not meeting its short-term financial obligations.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

10. As disclosed in note 59 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Material uncertainties

11. With reference to note 55 to the financial statements, the municipality is the defendant in various lawsuits. The outcome of these matters cannot presently be determined and/or reliably measured therefore, no provision for any liabilities that may result was made in the financial statements.

Material impairments

12. As disclosed in note 4 to the financial statements, the consumer debtors' balance has been impaired. The allowance for impairment of consumer debtors' amounts to R7,79 billion (2017-18: R8,17 billion), which represents 60.8% (2017-18: 66.5%) of total consumer debtors. The contribution to the impairment allowance, as disclosed on note 40 to the financial statements, was R4,52 billion (2017-18: R1,71 billion).

Material losses – electricity losses

13. As disclosed in note 65 to the financial statements, material electricity losses of R1,77 billion (2017-18: R1,52 billion) was incurred, which represents 18,28% (2017-18: 20.58%) of total electricity purchased. Technical losses amounted to R557,88 million (2017-18: R525,21 million) and was due to the electricity that was lost when it was distributed from the source of generation through the transmission and distribution network to the final consumer. Non-technical losses amounted to R898,98 million (2017-18: R999,47 million) and were due to administrative and technical errors, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption and faulty meters.

Other matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure note

15. In terms of section 125(2) (e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did

not form part of the audit of the financial statements and, accordingly I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the financial statements, the accounting officer is responsible for assessing the CTMM's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic pillars presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic pillars presented in the annual performance report of the municipality for the year ended 30 June 2019:

Strategic Pillars	Pages in the annual performance report
Strategic Pillar 1 – A city that facilitates economic growth and job creation	x – x
Strategic Pillar 3 – A city that delivers excellent services and protects the environment	x – x

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following strategic pillars:
- Strategic Pillar 1 – A city that facilitates economic growth and job creation
 - Strategic Pillar 3 – A city that delivers excellent services and protects the environment

Other matters

25. I draw attention to the matters below.

Achievement of planned targets

26. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and explanations provided for the under achievement of a significant number of targets.

Implementation of new rationalised set of indicators as per MFMA Circular 88 of 2017

27. MFMA Circular 88 of 2017 issued 30 November 2017 on the rationalisation of planning and reporting requirements for the 2018-19 MTREF, aims to support the alignment of planning and reporting instruments for a prescribed set of performance indicators for metropolitan municipalities from the 2018-19 financial year onwards. The CTMM decided not to include the common set of indicators in the IDP and/or “top-layer” SDBIP for the 2018-19 planning and reporting cycle due to standard operating procedures and internal processes not finalised to realise and commit to the implementation of said indicators within the city.

Report on the audit of compliance with legislation

Introduction and scope

28. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
29. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of the current assets, non-current assets, non-current liabilities, revenue, expenditure, cash flow statement and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Asset management

31. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Expenditure management

32. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) of the MFMA.
33. Reasonable steps were not taken to prevent irregular expenditure amounting to R1 473 030 830 as disclosed in note 51 to the annual financial statements, as required by section 62(1) (d) of the MFMA.
34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R R3 162 118 014, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA.
35. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R116 873 828, as disclosed in note 50 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA.

Procurement and contract management

36. Sufficient appropriate audit evidence could not be obtained that all contracts and were awarded in accordance with the legislative requirements, as the information to support the procurement process was not provided.
37. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in

contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.

38. Some of the contracts were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
39. Tender requirements for some of the contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups, as required by the 2017 preferential procurement regulation 9(1).
40. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
41. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2) (b) of the MFMA.
42. Awards were made to providers who were in the service of the municipality and/or whose directors / principal shareholders are in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44. Furthermore the provider failed to declare that he / she was in the service of the municipality, as required by SCM regulation 13(c).
43. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44.
44. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).

Consequence management

45. Allegations of financial misconduct against senior managers were not always tabled before council, as required by disciplinary regulations for senior managers 5(2).
46. Allegations of theft, fraud, extortion, forgery and uttering a forged document which exceeded R100 000 were not reported to the South African Police Service, as required by section 34(1) of PRECCA.

Other information

47. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected strategic pillars presented in the annual performance report that have been specifically reported in this auditor's report.
48. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
49. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements

and the selected strategic pillars presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

50. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

51. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in findings on compliance with legislation included in this report.
52. The accounting officer did not provide oversight responsibility regarding the preparation of the financial reporting, resulting in material adjustments to the financial statements and non-compliance with laws and regulations.
53. Management did not implement proper record keeping controls of documents relating to the financial statements and compliance with laws and regulations.

Material Irregularities

54. In accordance with the PAA and the Material Irregularities Regulations, I have a responsibility to report on material irregularities identified during the audit.

Other reports

55. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

56. Nineteen (19) investigations into alleged irregularities, financial misconduct and fraud were completed during the year under review. Various measures were recommended, including taking action against the identified officials, and these were in the process of being implemented. The recommendations were at various stages of implementation.
57. Two hundred and seventy nine (279) cases of alleged irregularities relating to financial misconduct, fraudulent acts, theft and non-compliance were investigated during the year. The investigations were still in progress at the reporting date with due date for finalisation not confirmed.

Johannesburg

30 November 2019



Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected strategic pillars and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the CTMM's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.
5. From the matters communicated to those charged with governance, I determine those matters that were of the most significance in the audit of the financial statements of the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law

or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.